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S. H. KRESS & COMPANY

ANNUAL REPORT

1956

MARKET STREET
SAN FRANCISCO
CALIFORNIA

S. H. KRESS & COMPANY

BUYING-EXECUTIVE OFFICES

114 FIFTH AVENUE, NEW YORK 11, N. Y.

Directors

R. H. KRESS

C. G. TRAMMELL — C. M. FUNK

W. B. SUTHERLAND — C. L. ABRY

O. V. W. HAWKINS — H. L. SPENCER

Officers

R. H. KRESS
Chairman of the Board

C. G. TRAMMELL
President

C. M. FUNK
Vice President and Treasurer

W. B. SUTHERLAND
Vice President

O. V. W. HAWKINS
Vice President and Secretary

C. L. ABRY
Vice President

C. H. WILLIAMSON
Assistant Secretary

W. M. WEAVER
Assistant Treasurer

D. C. WELLS
Controller

L. K. GUILER
Assistant Treasurer

General Counsel: DUER, STRONG & WHITEHEAD, New York, N. Y.
Transfer Agent: BANKERS TRUST COMPANY, New York, N. Y.
Registrar: CHEMICAL CORN EXCHANGE BANK, New York, N. Y.

OPERATIONS AT A GLANCE

	Amount 1956	Cents Per Dollar 1956	1955
SALES TO CUSTOMERS	$167,635,545	99.8	99.4
RENTAL INCOME, INTEREST, ETC.	388,158	.2	.6
Total amount received	$168,023,703	100.0	100.0
DEDUCT:			
Merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits	$113,401,554	67.5	67.0
Taxes paid to Federal, state, county and municipal governments (not including taxes paid by the Company for employe Social Security benefits)	11,894,680	7.1	7.4
Wages and salaries and other employe benefits paid to or provided for:			
All employes other than officers	$32,404,262		
Officers	466,137		
Social Security taxes	872,293		
Retirement pension, group life insurance contributions, and miscellaneous benefits	726,612		
Total	34,469,304	20.5	20.3
Dividends paid to shareholders	5,939,585	3.5	4.2
Total amount distributed	$165,705,123	98.6	98.9
BALANCE:			
Earnings retained for use in the business	$ 2,318,580	1.4	1.1

S. H. KRESS & COMPANY

February 7, 1957

To The Shareholders of S. H. Kress & Company:

THE ANNUAL REPORT of S. H. Kress & Company covering operations for the year ended December 31, 1956 is submitted herewith. It includes comparative statements of earnings and financial condition. These statements have been examined by Price Waterhouse & Co., the independent public accountants appointed by the Board of Directors, whose report to the shareholders appears on page 10.

Sales

Sales for 1956 totaled $167,635,545, as compared with $167,896,337 last year. Sales were affected by the work at the 27 stores enlarged and modernized during the year, and by the closing of two stores earlier in the year.

Average sales per store for the 260 stores which were in operation at the end of the year were $644,752 as compared with $640,826 for 262 stores at the end of 1955.

Earnings

After provision for Federal income taxes, net earnings in 1956 were $8,258,165 or $3.48 per share, as compared with $9,057,419 or $3.81 per share in 1955. The net earnings for 1956 and 1955 included non-recurring gains and losses on the sale of real estate and on the termination of leases. After excluding such non-recurring items and the related effect on income taxes, comparable earnings from normal operations were $3.50 per share in 1956 and $3.66 per share in 1955.

Dividends

The Company paid two quarterly dividends of 75¢ per share during the first half of the year, and two dividends of 50¢ per share during the second half of the year, a total of $2.50 per share. The change in dividend rate which was effective with the dividend payable September 1, 1956 was made to conserve cash resources for the Company's future renovation and building program.

Wages and Salaries

In 1956, the Company paid $32,870,399 in wages and salaries to all employes including officers and directors.

The Christmas bonus was again paid at the end of the year to all employes other than executives and amounted to $229,057.

The Company's share of Social Security taxes paid for the benefit of employes in 1956 amounted to $872,293, an increase of $22,605 or 2.7% over the previous year. In 1957, there will be a further increase in this item of expense due to the increase from 2% to 2¼% in the rate of contributions from employers as authorized by Congress.

The Company also contributed $726,612 towards the maintenance of Employes' Retirement Pension Plans, premiums on policies of life insurance on the lives of its employes, and miscellaneous employe benefits.

Wages and salaries and other employe benefits for 1956 totaled $34,469,304 or 20.5¢ of each dollar received.

Taxes

The provision for Federal income taxes on earnings for 1956 amounted to $8,660,000 as compared with $9,250,000 in 1955. Total taxes paid by the Company in 1956 amounted to $12,766,973 or $5.37 per share of common stock as compared with net earnings of $3.48 per share. The taxes paid by the Company amounted to 7.6¢ of each dollar of merchandise sold during the year.

In addition to these direct taxes, the Company, as agent for Federal, state, and local governments, collected from customers and forwarded to the various taxing authorities, excise and sales taxes totaling $5,690,725 or 3.4¢ per dollar of sales.

Inventory

Inventories of merchandise on hand and in transit at the end of the year amounted to $30,125,279 as compared with $30,629,732 at the end of 1955. In accordance with the Company's established policy, inventories were valued at the lower of cost or market computed by the retail inventory method.

New Stores—Future Expansion

On December 31, 1956, the Company had 260 stores in operation, two less than the number in operation in the previous year. During the year, two stores were closed, one because of unprofitable operation, and the other because a satisfactory renewal of the lease could not be negotiated.

Purchases of land and expenditures for buildings, fixtures and equipment in 1956 amounted to $6,358,000.

During 1956, four stores were enlarged and modernized and 23 stores were converted to self-service operation. In addition, substantial improvements were made at a number of stores. On December 31, 1956, the Company had 26 stores operating with check-out service.

The 1957 building program includes:

2 new stores to be opened in cities in which the Company has not operated previously,
1 new store to be opened to replace an existing store,
26 stores to be enlarged and modernized,
44 stores to be converted into self-service units,
17 stores to be improved in merchandising and sales facilities for customers.

Shareholders

On December 31, 1956, there were 11,651 registered shareholders of the common stock of the Company, as compared with 11,126 at the end of the previous year or an increase of 525 shareholders. Included in the registered shareholders are 991 employes of the Company.

Personnel

The Board of Directors and officers again thank the members of the entire organization for their continued cooperation and individual contributions to the results accomplished in 1956. The ability, effort, and

loyalty of the thousands of employes of the Company are reflected in the sound position which the Company occupies today.

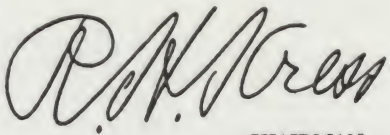
Appropriate recognition was made of the 40 employes who completed 25 years of service in 1956. At the end of the year, 339 employes had been associated with the Company for 25 years or more and 1,324 had completed 10 years or more of service.

As of March 15, 1956, the Board of Directors approved the adoption of a self-administered Employes' Retirement Pension Plan to replace the insured plan adopted in 1941. The Hanover Bank of New York City has been continued as trustee under the new plan, which in addition to providing greater flexibility in coverage and administration, will be less costly to the employes participating and to the Company.

The Company has had a long-established policy of encouraging employe ownership of Company stock through the sale of unissued or treasury stock to employes for less than market value. In line with this policy, alternate options were granted during the year to the President of the Company to purchase 5900 shares of the Company's Common Stock held in the treasury for 85% of the market price at the date the option was granted or alternately for cash in an amount which, together with the reduction in future compensation, will be equal to at least 85% of the market price on the date the option was granted. These options conform to present Internal Revenue Code provisions relating to restricted stock options. The options remained wholly unexercised at the end of the year.

Suppliers

The merchandise available to customers in Kress stores is manufactured to meet rigid specifications and standards of quality. The fact that Kress stores have traditionally been known for outstanding values is attributable to the excellent cooperation received from suppliers for so many years. The management again wishes to acknowledge the support received from suppliers in 1956.



CHAIRMAN

S. H. KRESS & COMPANY

Statement of Earnings

	Year ended December 31, 1956	*1955*
SALES	$167,635,545	$167,896,337
Rental received from tenants	596,367	510,505
Gain or (loss) on termination of leases and sales of real estate	(144,266)	495,917
Interest income (expense), etc.	(63,943)	43,236
	168,023,703	168,945,995
Deduct:		
Cost of merchandise sold and operating expenses	147,697,184	147,247,447
Depreciation and amortization	2,850,579	2,604,050
Employes' retirement pension plans	557,775	787,079
	151,105,538	150,638,576
EARNINGS BEFORE FEDERAL TAXES ON INCOME	16,918,165	18,307,419
Deduct:		
Federal taxes on income	8,660,000	9,250,000
NET EARNINGS	8,258,165	9,057,419
Deduct:		
Dividends paid (1956—$2.50 per share; 1955—$3.00 per share)	5,939,585	7,127,502
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	$ 2,318,580	$ 1,929,917

S. H. KRESS & COMPANY

ASSETS	December 31, 1956	1955
CURRENT ASSETS:		
Cash	$ 11,658,106	$ 11,486,828
U. S. Government securities, at amortized cost, which approximates market	5,460,703	5,995,719
Sundry debtors	78,835	1,616,778
Inventories of merchandise, including merchandise in transit, at lower of cost or market	30,125,279	30,629,732
Total current assets	47,322,923	49,729,057
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	175,416	287,314
Prepaid insurance premiums, rents, etc.	1,094,286	699,066
Total other assets	1,269,702	986,380
CAPITAL ASSETS—at cost:		
Fixtures and equipment	27,571,337	26,262,095
Less—Accumulated depreciation	16,289,391	15,963,577
	11,281,946	10,298,518
Buildings and improvements on leased properties	26,627,995	25,317,335
Less—Accumulated amortization	12,505,117	12,044,042
	14,122,878	13,273,293
Land and buildings	62,903,438	61,371,074
Less—Accumulated depreciation	17,337,861	16,631,666
	45,565,577	44,739,408
Total capital assets	70,970,401	68,311,219
	$119,563,026	$119,026,656

Statement of Financial Condition

LIABILITIES	December 31, 1956	1955
CURRENT LIABILITIES:		
Accounts payable—trade creditors and merchandise in transit	$ 3,496,378	$ 3,148,094
Accrued salaries and expenses, and miscellaneous accounts payable	6,312,926	7,419,346
Federal taxes on income	7,899,661	8,923,735
Total current liabilities	17,708,965	19,491,175
CAPITAL:		
Capital stock:		
Special preferred stock—6% cumulative—		
Authorized—1,000,000 shares of $10 each		
All issued shares reacquired for treasury		
Common stock without par value—		
Authorized 2,678,787 shares, including 125,840 unissued shares reserved for sale to employes		
Issued—2,381,734 shares	49,710,193	49,710,193
Accumulated earnings retained for use in the business	52,262,385	49,943,805
Less—Cost of 5,900 shares of common stock reacquired (see page 6)	118,517	118,517
	52,143,868	49,825,288
Total capital stock and accumulated earnings	101,854,061	99,535,481
	$119,563,026	$119,026,656

NOTE: At December 31, 1956 the Company was obligated under 140 leases expiring after December 31, 1959 some of which require, in addition to the minimum rentals now being paid, payments of additional rentals based on sales, and payments of real estate taxes, maintenance and insurance. The aggregate amount charged against operations for the year 1956 under all leases was $2,959,000.

ACCOUNTANTS' REPORT

PRICE WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

February 7, 1957

To the Shareholders of S. H. Kress & Company:

In our opinion, the accompanying statements present fairly the financial position of S. H. Kress & Company at December 31, 1956 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

COMPARATIVE RECORD

OF SALES, EARNINGS, AND DIVIDENDS

Year	*No. of Stores*	*Sales*	*Earnings Before Federal Taxes on Income*	*Federal Taxes on Income*	*Net Earnings After Federal Taxes on Income*	*Net Earnings Per Share of Common Stock*	*Dividends Paid Per Share of Common Stock*
1945	244	$126,038,945	$16,687,280	$11,675,000	$ 5,012,280	$2.13	$1.60
1946	242	150,926,508	20,785,531	8,000,000	12,785,531	5.44	4.20
1947	243	155,359,900	20,572,077	7,900,000	12,672,077	5.39	3.50
1948	250	165,366,617	20,638,578	7,800,000	12,838,578	5.46	4.25
1949	256	163,923,437	16,148,204	6,100,000	10,048,204	4.27	3.00
1950	259	161,657,149	20,946,641(a)	8,900,000	12,046,641(a)	5.12(a)	3.00
1951	259	172,390,827	20,111,936(b)	10,100,000	10,011,936(b)	4.26(b)	3.00
1952	261	176,241,576	19,090,842	9,950,000	9,140,842	3.89	3.00
1953	262	172,979,646	18,906,294	9,880,000	9,026,294	3.84	3.00
1954	264	169,416,847	17,446,217	9,100,000	8,346,217	3.51	3.00
1955	262	167,896,337	18,307,419(c)	9,250,000	9,057,419(c)	3.81(c)	3.00
1956	260	167,635,545	16,918,165	8,660,000	8,258,165	3.48	2.50

(a) Includes restoration of excess provision for Federal taxes on income for prior years amounting to $700,000 or 30¢ per share.
(b) Includes restoration of depreciation taken in prior years, less Federal taxes, amounting to $675,171 or 29¢ per share.
(c) Includes profit on sale of property amounting to $495,917 or 15¢ per share after taxes.

KRESS STORES

ALABAMA (13)
Anniston
Bessemer
Birmingham
Dothan
Ensley
Gadsden
Huntsville
Mobile
Montgomery
No. Birmingham
Prichard
Selma
Tuscaloosa

ARIZONA (5)
Douglas
Nogales
Phoenix
Tucson
Yuma

ARKANSAS (6)
Blytheville
Fort Smith
Helena
Hot Springs
Little Rock
Pine Bluff

CALIFORNIA (43)
Alhambra
Anaheim
Bakersfield
Berkeley
Calexico
El Centro
Eureka
Fresno
Glendale
Hollywood
Huntington Park
Inglewood
Long Beach
Los Angeles (10)
Modesto
Oakland
Pasadena
Pomona
Richmond
Riverside
Sacramento
Salinas
San Bernardino
San Diego
San Fernando
San Francisco (2)
San Jose
San Pedro
Santa Ana
Santa Barbara
Santa Monica
Santa Rosa
Stockton

COLORADO (7)
Boulder
Colorado Springs
Denver
Grand Junction
Greeley
Pueblo
Trinidad

FLORIDA (14)
Daytona Beach
Jacksonville (2)
Key West
Lakeland
Miami
Miami Beach
Orlando
Pensacola
St. Petersburg
Sarasota
Tampa
West Palm Beach
Ybor City

GEORGIA (14)
Albany
Americus
Athens
Atlanta (2)
Augusta
Brunswick
Columbus
La Grange
Macon
Rome
Savannah
Valdosta
Waycross

HAWAII (4)
Hilo
Honolulu
Lihue
Wailuku

IDAHO (3)
Boise
Idaho Falls
Pocatello

ILLINOIS (2)
Cairo
Rockford

KANSAS (13)
Arkansas City
Chanute
Coffeyville
Emporia
Fort Scott
Hutchinson
Independence
Iola
Lawrence
Parsons
Pittsburg
Salina
Wichita

KENTUCKY (3)
Ashland
Hopkinsville
Winchester

LOUISIANA (6)
Alexandria
Baton Rouge
Lake Charles
Monroe
New Orleans
Shreveport

MISSISSIPPI (8)
Biloxi
Greenville
Hattiesburg
Jackson
Laurel
Meridian
Natchez
Vicksburg

MISSOURI (5)
Carthage
Jefferson City
Nevada
Trenton
Webb City

MONTANA (2)
Billings
Great Falls

NEW JERSEY (2)
East Orange
Summit

NEW MEXICO (2)
Albuquerque
Roswell

NEW YORK (4)
New York City (4)

NORTH CAROLINA (14)
Asheville
Charlotte
Durham
Fayetteville
Gastonia
Goldsboro
Greensboro
High Point
New Bern
Raleigh
Rocky Mount
Salisbury
Wilmington
Winston-Salem

OHIO (1)
Youngstown

OKLAHOMA (15)
Ardmore
Bartlesville
Blackwell
Chickasha
Enid
Guthrie
Lawton
McAlester
Muskogee
Oklahoma City
Okmulgee
Ponca City
Sapulpa
Shawnee
Tulsa

OREGON (2)
Portland
Salem

PENNSYLVANIA (1)
Altoona

SOUTH CAROLINA (9)
Anderson
Charleston
Columbia
Florence
Greenville
Greenwood
Orangeburg
Spartanburg
Sumter

TENNESSEE (9)
Bristol
Chattanooga
Elizabethton
Johnson City
Kingsport
Knoxville
Memphis
Nashville (2)

TEXAS (37)
Abilene
Amarillo
Austin
Baytown
Beaumont
Brownsville
Corpus Christi
Corsicana
Dallas (2)
Del Rio
Denison
Eagle Pass
El Paso
Fort Worth
Gainesville
Galveston
Greenville
Harlingen
Hillsboro
Houston (3)
Laredo
Longview
Lubbock
Paris
Port Arthur
San Angelo
San Antonio (2)
Sherman
Texarkana
Tyler
Waco
Waxahachie
Wichita Falls

UTAH (3)
Ogden
Provo
Salt Lake City

VIRGINIA (1)
Roanoke

WASHINGTON (12)
Aberdeen
Bellingham
Bremerton
Everett
Seattle (4)
Spokane
Tacoma
Wenatchee
Yakima

Total—260 Stores in 29 States and the Territory of Hawaii

TYPICAL SELF-SERVICE STORES

KRESS